

VZCZCXRO3604
OO RUEHBI RUEHCHI RUEHCI RUEHCN RUEHLH RUESLE
DE RUEHBU #1708/01 2411918
ZNR UUUUU ZZH
O 291918Z AUG 07
FM AMEMBASSY BUENOS AIRES
TO RUEHC/SECSTATE WASHDC IMMEDIATE 9070
INFO RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUCPDOG/USDOC WASHINGTON DC
RUEHRC/DEPT OF AGRICULTURE USD FAS WASHINGTON DC
RUEHC/DEPT OF LABOR WASHINGTON DC
RUEAIIA/CIA WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC
RHMFIUU/HQ USSOUTHCOM MIAMI FL
RUEHAC/AMEMBASSY ASUNCION 6496
RUEHBK/AMEMBASSY BANGKOK 0070
RUEHBJ/AMEMBASSY BEIJING 0164
RUEHBR/AMEMBASSY BRASILIA 6353
RUEHCV/AMEMBASSY CARACAS 1452
RUEHHI/AMEMBASSY HANOI 0032
RUEHIL/AMEMBASSY ISLAMABAD 0041
RUEHJA/AMEMBASSY JAKARTA 0034
RUEHKL/AMEMBASSY KUALA LUMPUR 0060
RUEHLP/AMEMBASSY LA PAZ 4868
RUEHML/AMEMBASSY MANILA 0059
RUEHMN/AMEMBASSY MONTEVIDEO 6701
RUEHNE/AMEMBASSY NEW DELHI 0081
RUEHSG/AMEMBASSY SANTIAGO 0722
RUEHUL/AMEMBASSY SEOUL 0107
RUEHGP/AMEMBASSY SINGAPORE 0051
RUEHCI/AMCONSUL KOLKATA 0008
RUEHCN/AMCONSUL CHENGDU 0008
RUEHCG/AMCONSUL CHENNAI 0001
RUEHCHI/AMCONSUL CHIANG MAI 0008
RUEHGZ/AMCONSUL GUANGZHOU 0100
RUEHHK/AMCONSUL HONG KONG 0027
RUEHKP/AMCONSUL KARACHI 0016
RUEHLH/AMCONSUL LAHORE 0010
RUEHBI/AMCONSUL MUMBAI 0023
RUEHRI/AMCONSUL RIO DE JANEIRO 2334
RUEHSO/AMCONSUL SAO PAULO 3501
RUESLE/AMCONSUL SHANGHAI 0024
RUEHSH/AMCONSUL SHENYANG 0012
RUEHIN/AIT TAIPEI 0001

UNCLAS SECTION 01 OF 04 BUENOS AIRES 001708

SIPDIS

SIPDIS
SENSITIVE

PASS NSC FOR MICHAEL SMART
PASS FED BOARD OF GOVERNORS FOR PATRICE ROBITAILLE
PASS USTR FOR KATHERINE DUCKWORTH AND MARY SULLIVAN
TREASURY FOR ROSELLEN ALBANO
USDOC FOR 4322/ITA/MAC/OLAC/PEACHER
US SOUTHCOM FOR POLAD
SEOUL PASS TO PUSAN

E.O. 12958: N/A
TAGS: [ETRD](#) [EINV](#) [EAGR](#) [ECON](#) [AR](#) [CH](#) [HK](#) [IN](#) [ID](#) [KN](#) [KS](#) [MY](#) [PK](#)
RP, SN, TW, TH, VM
SUBJECT: ARGENTINA: CHINESE REACTION TO NON-TARIFF BARRIERS

Ref: (A) Buenos Aires 1648
(B) Buenos Aires 1644
(C) Buenos Aires 1642

This cable contains business-sensitive information -- not for internet release.

Summary

1. (SBU) Ten days after President Kirchner announced the imposition of non-tariff barriers on burgeoning Asian imports, local media has

reported that China struck back with retaliatory phytosanitary inspections of Argentine soy shipments, though two grain trading company reps say the inspections occurred before Kirchner's announcement. Local media also reports statements by Chinese officials complaining that Argentine measures are WTO-inconsistent and claiming the right to take "necessary measures" in response. While GoA trade-related resolutions issued following the President's announcement have been non-discriminatory, a pending resolution to re-set customs inspection reference prices could include Asian country-specific designations. The U.S. AmCham has sent a letter to Economy Minister Peirano highlighting U.S. company concerns that non-tariff barriers will affect incoming shipments from their Asian affiliates. U.S. firms Dell, Honeywell, HP and IBM, which had earlier expressed concern to Post about goods held up by Customs, have reported their shipments released. End Summary.

Chinese Retaliation?

12. (SBU) Local media reports that, in apparent retaliation for non-tariff barriers imposed by the GoA on Asian imports (Ref A), Chinese authorities subjected three shiploads of Argentine soy products in Chinese ports to rigorous phytosanitary inspections. However, a local representative of grain company Louis Dreyfus, which owned one shipload of the soy, said China's inspection actually took place two months ago. Hugo Krajnc, Public Affairs Director for Cargill in Argentina (owner of another soy shipload) and Chair of the AmCham Trade Committee, confirmed to Post Agricultural Attache that China's inspection of Cargill's soy also

BUENOS AIR 00001708 002 OF 004

occurred prior to Kirchner's announcement. While the shipments were eventually cleared for entry, media reports that this was the first time since 2004 that China had subjected Argentine agricultural shipments to such inspections. Local media also quoted a Chinese Ministry of Trade official in Beijing saying the GoC "does not understand nor accept in any way" Argentina's actions that "ignored WTO regulations." The official asked that Argentina's new Customs procedures be published "immediately," and asserted China's "right to take necessary measures" in response.

13. (SBU) In an August 27 media interview, GoA Customs Director Ricardo Echegaray denied that his organization had worked to block or delay Chinese imports but noted that "there might be a bottleneck in Montevideo (Uruguay)," where containers have supposedly been awaiting transshipment to Argentina. He also said the GoA had earlier requested cooperation from Chinese customs to combat under-invoicing, one of the primary justifications for the new measures, but received a response in May that the Chinese "were not interested" in the issue.

Customs Delays Resolved

14. (SBU) Following an emergency meeting of the American Chamber of Commerce (AmCham) trade committee on August 22 attended by Econ and FCS officers (Refs A, B) AmCham sent a letter to Economy Minister Peirano noting U.S. company concern about the non-tariff barriers imposed on Asian imports that affected incoming shipments from their Asian affiliates. Subsequently, U.S. firms Dell, Honeywell, HP and IBM, which had earlier expressed concern to Post about goods held up by Customs (Ref A), reported that by August 27, their shipments had been released.

Measures thus Far...And Yet to Come

15. (SBU) Three official new trade-related measures have been published since Argentine President Kirchner and Economy Minister Peirano announced on August 17 that restrictions would be imposed on Asian imported goods. The first (Economy Ministry Resolution 47/2007), requiring a new non-automatic license for non-leather

suitcases and handbags (Ref B), was published August 17 and takes effect August 31. The second (Economy Ministry Resolution 61/2007), imposing a similar non-automatic license for shoe uppers, was published August 23. The third (Customs Resolution 50/2007), published August 24, limits the ports-of-entry for numerous tariff schedule groupings (including 20 whole chapters - all textiles, shoes, electrical machinery, metal and certain other manufactured goods, watches; partial chapter limits include plastic household goods, leather cases and apparel, porcelain and ceramic tableware and ornaments, household glass goods, imitation jewelry, household appliances, pots and pans, computers, car parts, motorcycles and parts, bicycles and parts, lamps, and toys).

¶6. (SBU) Still pending is a measure earlier described to Econoffs by Ministry of Economy Trade Undersecretary Schale (Ref A) that will (1) update 5,000 - 8,000 customs "Reference Prices" and (2) subject goods from China, India, Hong Kong, North and South Korea, Indonesia, Malaysia, Pakistan, the Philippines, Taiwan, Thailand, Singapore, and Vietnam with values below these reference prices to additional scrutiny prior to Customs clearance (Ref A).

China Trade with Argentina: Perspective

¶6. (SBU) According to an August 24 report by the GoA's official statistics agency, INDEC, exports to China have risen 28% y-o-y through seven months of 2007 to US\$ 2.6 billion, while imports from China have risen 62% to \$2.6 billion. The report notes that Argentine exports are primarily soy beans and oil, and attributes the rise in value primarily to increased prices. Imports from China are primarily capital and intermediate goods, though the report also notes an increase in consumption goods from Asia, including Chinese motorcycles. According to the Global Trade Atlas, China has been Argentina's second largest export destination in value terms for the first half of 2007.

Comment

¶7. (SBU) Argentina is certainly within its rights to subject imports to additional scrutiny to ferret out illegal under-invoicing. But

any eventual GoA resolution that targets such non-tariff barriers to goods arriving from specific Asian countries will invite WTO attention. The latest Customs regulation published by the GoA restricts the Argentine ports of entry for a number of products imported largely from Asian markets. While this measure will certainly delay processing and increase the final costs of some Asian imports, it is, on its face, non-discriminatory. Now, ten days after President Kirchner announced measures would be undertaken to restrict burgeoning Asian imports, the GoA has yet to publish a promised official resolution that will list new universal customs inspection reference prices and perhaps include Asia country-specific measures. Argentine importers, including U.S. high tech companies, are waiting to see how this new resolution will be worded.

¶8. (SBU) Even if China's inspections of Argentine soy were unrelated to recent announcements and measures, media coverage of these inspections may instruct the Kirchner administration about the consequences of populist trade restrictions. The phytosanitary inspections are a pointed reminder that Asia is a key market for Argentine exports: roughly 20% of Argentine exports to date in 2007 go to Asian markets, and China alone absorbs 11% of Argentine exports. Seventy percent of Argentine sales to China are soy products, and export tariffs on primary commodity exports remain an essential source of GoA revenue. Argentina is being reminded that trade populism can cut both ways.